

Consolidated Financial Statements of

ENHANCED OIL RESOURCES INC.

Years ended December 31, 2008 and 2007

Auditors' Report

To the Shareholders of Enhanced Oil Resources Inc.

We have audited the consolidated balance sheets of **Enhanced Oil Resources Inc.** as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
April 1, 2009

ENHANCED OIL RESOURCES INC.

Consolidated Balance Sheets

(all amounts expressed in thousands of Canadian dollars)

	December 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 5,241	\$ 20,523
Receivables (Note 4)	624	4,618
Equipment held for sale, net (Note 4)	2,020	-
Other current assets	269	112
	<u>8,154</u>	<u>25,253</u>
Property and Equipment (Note 3)		
Oil and gas properties, net	28,427	10,743
Resource properties, net	97,675	64,269
Other property and equipment	706	328
	<u>126,808</u>	<u>75,340</u>
Other Assets		
Restricted cash	2,263	586
Other	82	38
	<u>\$ 137,307</u>	<u>\$ 101,217</u>

Liabilities And Shareholders' Equity

Current liabilities		
Accounts payable and accrued liabilities	\$ 1,776	\$ 2,410
	<u>1,776</u>	<u>2,410</u>
Asset retirement obligation (Note 5)	5,296	4,482
Future income tax liabilities (Note 7)	7,899	7,899
Shareholders' equity		
Equity instruments (Notes 6(b), 6(c) and 6(d))	168,114	127,596
Equity instruments subscribed	53	161
Contributed surplus (Note 6(e))	14,827	9,197
Common shares acquired, at cost	(168)	(168)
Deficit	(60,490)	(50,360)
	<u>122,336</u>	<u>86,426</u>
	<u>\$ 137,307</u>	<u>\$ 101,217</u>

Going Concern (Note 1)

See accompanying notes to consolidated financial statements.

Approved by the Board of Directors:

/s/ Thomas G. Milne

Thomas G. Milne

/s/ Barry D. Lasker

Barry D. Lasker

ENHANCED OIL RESOURCES INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(all amounts expressed in thousands of Canadian dollars)

	Year ended December 31	
	2008	2007
Revenues (Note 8)		
Oil and gas sales, net of royalties	\$ 4,302	\$ 1,205
Interest and other	651	360
	<u>4,953</u>	<u>1,565</u>
Expenses		
Lease operating expense	3,314	1,833
General and administrative	5,300	3,418
Accretion of asset retirement obligation (Note 5)	350	210
Depreciation and depletion	860	111
Foreign currency translation (gain) loss	(1,382)	512
Stock-based compensation (Note 6(g))	4,655	5,393
Loss on notes receivable	1,938	-
Interest and other, net	48	86
	<u>15,083</u>	<u>11,563</u>
Loss for the year before income taxes	(10,130)	(9,998)
Income taxes (Note 7)	-	-
Loss and comprehensive loss for the year	(10,130)	(9,998)
Deficit, beginning of year	(50,360)	(40,362)
Deficit, end of year	<u>\$ (60,490)</u>	<u>\$ (50,360)</u>
Loss per share - basic and diluted (Note 2)	\$ (0.09)	\$ (0.13)

Going Concern (Note 1)

See accompanying notes to consolidated financial statements.

ENHANCED OIL RESOURCES INC.

Consolidated Statements of Cash Flows

(all amounts expressed in thousands of Canadian dollars)

In thousands	Year ended December 31	
	2008	2007
Cash (used in) provided by:		
Operating activities		
Net loss for the year	\$ (10,130)	\$ (9,998)
Add (deduct) noncash and other items:		
Depreciation and depletion	860	111
Accretion of asset retirement obligation	350	210
Stock-based compensation expense	4,655	5,393
Stock issued for consulting services	-	31
Loss on notes receivable	1,938	-
Future income tax (expense)	-	-
Incurred asset retirement expenditures	(72)	-
	(2,399)	(4,253)
Changes in non-cash working capital	(1,075)	(685)
Cash provided by (used in) operations	(3,474)	(4,938)
Investing activities		
Property acquisitions	(17,720)	(9,216)
Exploration and development expenditures	(34,138)	(19,059)
Advances on notes receivable	-	(3,137)
Repayments on notes receivable	266	372
(Increases) decreases in restricted cash	(1,677)	(504)
Cash used in investing activities	(53,269)	(31,544)
Financing activities		
Issuance of equity instruments for cash, net of issue costs	41,355	59,092
Proceeds from equity instruments subscribed, net	106	62
Repayments of short-term borrowings	-	(3,231)
Cash provided by financing activities	41,461	55,923
Change in cash and cash equivalents	(15,282)	19,441
Cash and cash equivalents, beginning of year	20,523	1,082
Cash and cash equivalents, end of year	\$ 5,241	\$ 20,523
Non-cash investing and financing activities:		
Assignment of drilling rig	\$ 2,021	
Common shares issued in debt settlement	\$ -	\$ 373
Cash paid for interest	\$ -	\$ 585

Going Concern (Note 1)

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements

(All amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

(1) Going Concern

Enhanced Oil Resources Inc. (a company incorporated in British Columbia, Canada) and its wholly owned subsidiaries (the "Company") principally operates in the United States and is engaged in the business of developing its helium and carbon dioxide ("CO₂") project in eastern Arizona/western New Mexico ("St. Johns Field") and crude oil and natural gas production, including enhanced oil recovery projects, in the Permian Basin in eastern New Mexico and West Texas. The Company has spent approximately \$97.7 million in acquiring, exploring and developing the St. Johns Field and \$28.4 million in acquiring and initiating remedial activities in its oil fields in the Permian Basin. As disclosed in the Consolidated Financial Statements of Operations, Comprehensive Loss and Deficit and Cash Flows, respectively, the Company incurred a net loss of \$10.1 million for the year ended December 31, 2008 and used \$3.5 million and \$53.3 million of cash in operations and investing activities, respectively, during the twelve months of 2008. At December 31, 2008, the Company had cash on hand of \$5.2 million and working capital of \$6.4 million.

In 2008, the Company issued common shares in two private placements and the exercise of warrants with net proceeds of \$40.8 million. The proceeds were used to settle outstanding indebtedness, for the continuation of drilling programs on its resource properties, long-term project engineering and design, and two oil and gas property acquisitions. Continuation of operations and realization of the capitalized cost of resource properties are dependent upon the Company obtaining long-term sales contracts to provide CO₂, constructing the appropriate facilities, obtaining additional external financing and achieving profitable operations. Management is currently focused on the activities necessary to develop the St. Johns Field and develop its oil and gas properties, including (i) securing a venture partner as a co-participant to jointly finance the development of the St. Johns Field, (ii) initiating development of a helium plant at the St. Johns Field for recovery of helium from a CO₂ gas stream (iii) initiating its own tertiary recovery projects through CO₂ flooding and (iv) securing firm commitments of enhanced recovery producers in the Permian Basin sufficient to justify pipeline construction from the St. Johns Field. With regard to item (iv), initial commitments are currently being targeted in areas where CO₂ deliveries will serve the interests of other third party enhanced oil recovery projects and are focused in New Mexico and Texas. The securing of a development partner and long-term contracts for CO₂ delivery with enhanced oil recovery operators are critical steps in this process. In addition, the current economic uncertainty and financial market volatility will likely affect the Company's operations and activities in the next twelve months. If the Company is not successful in the activities discussed above, the Company may not be able to fully realize its assets. There are no assurances that the Company will be successful in the initiatives discussed above, which causes significant doubt concerning the Company's ability to continue operations.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") which assumes the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future, which may or may not be appropriate, and does not reflect adjustments that would otherwise be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 2

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

The ability to continue operations represents an uncertainty with regard to the preparation of financial statements especially related to determinations of asset impairment, if any, in the periodic reviews that the Company must undertake concerning amounts capitalized as resource properties and as major development project costs. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes of estimates in future periods could be significant.

(2) Summary of Significant Accounting Policies

These financial statements are presented in Canadian dollars unless otherwise stated and are prepared in accordance with Canadian GAAP. The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, and revenues and expenses during the reporting period.

Measurement Uncertainty

Impairment of Long Lived Assets. The Company reviews the carrying amount of long lived assets when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through future operations. This is accomplished by determining whether the sum of the projected undiscounted future cash flows from the use and eventual disposition of the assets exceed the net carrying amount of the assets as of the assessment date. Estimates of future cash flow and fair value require judgment and may change over time.

At December 31, 2008, as a result of the adverse business climate, the Company conducted an impairment test on its assets. Estimates of future cash flows used to test the recoverability of the assets included key assumptions related to, among other things, the ability to obtain financing to complete the project, production, product prices, the U.S./Canada exchange rate, royalties, operating costs and capital costs. The Company concluded that the recognition of an impairment loss for the assets was not required. Given the inherent imprecision and importance of the key assumptions, it is possible that changes in future conditions may lead management to use different key assumptions, which could require a material change in the net carrying amount of these assets.

In addition, specific estimates made by management include asset retirement obligations, fair values of equity instruments, taxes, impairment reviews of other assets, depletion computations and the fair value of equipment held for sale. Actual results could differ from those estimated.

The objectivity and integrity of data in these financial statements, including estimates and judgments relating to matters not concluded by year-end, are the responsibility of management of the Company. In management's opinion, the financial statements have been properly prepared and are within the framework of the Company's accounting policies.

Principles of consolidation and presentation - The consolidated financial statements of the Company include the accounts of Enhanced Oil Resources Inc. (formerly Ridgeway Petroleum Corp.) and its wholly-owned subsidiary, Ridgeway Petroleum (Florida), Inc. ("RF"). RF includes the results of its wholly-owned subsidiary, Arizona Resources Industries, Inc. and its wholly-owned subsidiaries, Ridgeway Arizona Oil Corp., EOR Operating Company, and Phoenix Energy, Inc.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 3

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

Foreign currency translation - The operations of the Company's United States subsidiaries are classified as integrated. Assets and liabilities are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at average exchange rates prevailing during the period with the exception of depreciation and depletion, which are translated at historical rates. Exchange gains or losses are included in earnings.

Depreciation - Office equipment and vehicles are depreciated using the straight-line method over 5 years, office furniture and leasehold improvements are depreciated using the straight-line method over 7 years, and computer software is depreciated using the straight-line method over 3 years.

Revenue recognition - Revenue from the sale of crude oil, natural gas, helium and crude CO₂ is recorded when title passes to the purchaser and collectability is reasonably assured.

Cash and cash equivalents - Cash and cash equivalents include short-term investments with a maturity of three months or less when purchased.

Restricted cash - Restricted cash includes deposits made to support statutory bonds required to operate oil and gas wells on U.S. federal and state leases. Specifically, the Company has purchased certificates of deposit to cover individual or blanket well plugging bonds in connection with wells on its property interests in New Mexico and Arizona in amounts specified by regulators. These deposits must be maintained until the wells are plugged and abandoned or sold.

Resource properties - Direct expenditures are initially capitalized and charged against income or loss if no reserves are found or when there are indications of impairment are indicated. Other costs are expensed until development commences. In response to the measurement uncertainty surrounding the carrying value of the Company's resource properties, management performed a comprehensive impairment review. As a result of this impairment review, the Company concluded that the carrying value of the resource properties is recoverable and that no impairment existed at December 31, 2008.

Oil and natural gas accounting policy - Effective February 2007, in connection with the property acquisitions described in Note 3, the Company adopted the full-cost method of accounting whereby all costs relating to the exploration for, and development of, petroleum and natural gas reserves are capitalized. Such costs include land acquisition, geological and geophysical, drilling of productive and nonproductive wells, production equipment and facilities, carrying costs directly related to unproved properties and costs related to the acquisition of petroleum and natural gas assets directly or by means of a business combination. These capitalized costs, along with estimated future capital expenditures to be incurred in order to develop proved reserves, are depleted and depreciated on a unit-of-production basis using estimated proved petroleum and natural gas reserves (after royalties) as evaluated by independent engineers. For purposes of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of their relative energy content where six thousand cubic feet of gas equates to one barrel of oil. Costs of acquiring and evaluating unproved properties and major development projects are excluded from costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties or impairment occurs. Gains or losses on the disposition of properties are not recognized unless the proceeds on disposition result in a change of 20 percent or more in the depletion rate.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 4

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

The Company intends to conduct tertiary recovery operations in reservoirs that have already produced significant amounts of oil over many years; however, in accordance with the rules for recording proved reserves, proved reserves associated with enhanced recovery techniques, such as CO₂ injection, cannot be recognized until there is a production response to the injected CO₂ or, unless the field is analogous to an existing flood. Once CO₂ injections commence, injection costs will be capitalized, as project development costs, in fields that are in their development stage, which means no incremental oil production has been observed due to the CO₂ injections (i.e. a production response). These capitalized development costs are being included in major development costs unless there are already proved tertiary reserves in that field. After confirming a production response to the CO₂ injections (i.e. the production stage), injection costs will be expensed as incurred and any previously deferred project development costs will become subject to depletion upon recognition of proved tertiary reserves. At December 31, 2008, the Company had capitalized costs in connection with one CO₂ pilot project intended to confirm the suitability and economics of the Company's oil and gas properties intended for tertiary CO₂ recovery operations. In response to the measurement uncertainty surrounding the carrying value of the Company's capitalized costs of tertiary recovery projects, management performed a comprehensive impairment review. As a result of this impairment review, the Company concluded that the carrying value of the major development properties is recoverable and that no impairment existed at December 31, 2008.

The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test (the "ceiling test"). Under this test, an estimate is made of the ultimate recoverable amount from undiscounted future net cash flows based on proved reserves, which are determined by using forecasted future prices and costs, plus unproved properties. If the carrying amount exceeds the ultimate recoverable amount, an impairment loss is recognized in net earnings. The impairment loss is limited to the amount by which the carrying amount exceeds: (i) the sum of the fair value of proved and probable reserves; and (ii) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

Asset retirement obligation - The Company provides for asset retirement obligations. Liabilities are recognized for retirement obligations associated with tangible long-lived assets, such as well sites and facilities. The obligations within the scope of this standard are those for which the Company faces a legal obligation for settlement (or has made promissory estoppels). The initial measurement of the asset retirement obligation is at fair value. The asset retirement cost, equal to the estimated fair value of the asset retirement obligation, is capitalized as part of the cost of the related long-lived asset. Amortization of asset retirement costs is included in depletion expense on a unit-of-production basis in the consolidated statements of operations and deficit. Increases in the asset retirement obligation resulting from the passage of time are recorded as accretion of asset retirement obligation in the consolidated statements of operations and deficit. Actual expenditures incurred are charged against the accumulated obligation to the extent that a liability has been recorded.

Income taxes - Income taxes are recorded using the liability method of accounting. Under this method, future income tax liabilities are determined by applying the expected tax rate at the time of reversal to the temporary differences between the accounting and tax bases of the Company's assets and liabilities. The future benefit of current and past tax losses is recognized whenever it is more likely than not that the Company will be able to generate sufficient future taxable income to utilize the tax losses before they expire.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 5

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

Stock-based compensation - The Company periodically grants stock options to directors, employees and consultants of the Company. The Company records compensation expense in the consolidated financial statements for stock options granted using the fair value method. Fair values are determined using the Black-Scholes option pricing model (see Note 6) and expensed over the vesting period.

Financial instruments - Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities” as defined by the accounting standard. Financial assets and financial liabilities “held-for-trading” are measured at fair value with changes in those fair values recognized in net earnings. Financial assets “available-for-sale” are measured at fair value, with changes in those fair values recognized in Other Comprehensive Income (“OCI”). Financial assets “held-to-maturity”, “loans and receivables” and “other financial liabilities” are measured at amortized cost using the effective interest method of amortization. Cash and cash equivalents are designated as “held-for-trading” and are measured at fair value. Accounts receivable are designated as “loans and receivables”. Accounts payable and accrued liabilities are designated as “other financial liabilities”.

Per share data - Diluted per share information is calculated using the treasury stock method. The treasury stock method assumes the notional exercise of all in-the-money stock options, warrants and agency options and that all notional proceeds to the Company are used to repurchase the Company’s common shares at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive. The weighted average number of shares outstanding during the year ended December 31, 2008, which was used for purposes of the computation of basic per share data, was 107,487,030 (2007- 78,602,164). Since the Company incurred a net loss for each of the periods ended December 31, 2008 and 2007, no common stock equivalents were included in the computation of diluted earnings per share as their inclusion would have been anti-dilutive.

Changes in Accounting Policies and Practices

Effective January 1, 2008, the Company has adopted the following new Canadian Institute of Chartered Accountants (“CICA”) Handbook sections:

- (i) Section 1400, General Standards of Financial Statement Presentation which aligns Canadian standards of financial statement presentation with those of the International Financial Reporting Standards. The section includes new required disclosure if an entity is not preparing statements on a going concern basis which does not apply to the Company since its statements have been prepared assuming it is a going concern.
- (ii) Section 1535, Capital Disclosures, requires disclosure of information about the Company’s capital and the objectives, policies, and processes for managing capital;
- (iii) Section 3862, Financial Instruments – Disclosures;
- (iv) Section 3863, Financial Instruments – Presentation, were created to expand upon and replace Section 3861, Financial Instrument Disclosures and Presentation.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 6
(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

Future Changes in Accounting Policies

The following is an overview of CICA accounting standard changes that the Company will be required to adopt in future years. The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have an impact on the Company:

- As of January 1, 2009, The Company will be required to adopt the CICA Handbook Section 3064, "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard should not have a material impact on the Company's Consolidated Financial Statements.
- In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP in 2011 for profit oriented Canadian publicly accountable enterprises. The Company will be required to report its results in accordance with IFRS beginning in 2011. The Company will develop a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information.

The key elements of the Company's changeover plan include:

- determine appropriate changes to accounting policies and required amendments to financial disclosures;
- identify and implement changes in associated processes and information systems;
- comply with internal control requirements;
- communicate collateral impacts internally; and
- educate and train internal and external stakeholders.

The Company is currently analyzing accounting policy alternatives and identifying implementation options for the corresponding process changes. The Company will update its IFRS changeover plan to reflect new and amended accounting standards issued by the International Accounting Standards Board. As IFRS is expected to change prior to 2011, the impact of IFRS on the Company's Consolidated Financial Statements is not reasonably determinable at this time.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 7

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

(3) Property and Equipment

Cost:	Resource Properties	Oil and Gas Properties	Other Property and Equipment	Total
Balance, December 31, 2006	\$ 42,232	\$ -	\$ 43	\$ 42,275
Property acquisitions	3,669	5,807	-	9,476
Delay rentals	490	-	-	490
Asset retirement obligation - initial measurement	43	3,981	-	4,024
Expenditures	18,035	1,024	345	19,404
Balance, December 31, 2007	\$ 64,469	\$ 10,812	\$ 388	\$ 75,669
Property acquisitions	410	6,051	-	6,461
Delay rentals	388	-	-	388
Asset retirement obligation - initial measurement	24	512	-	536
Expenditures	32,584	11,779	580	44,943
Balance, December 31, 2008	\$ 97,875	\$ 29,154	\$ 968	\$ 127,997
Accumulated depreciation and impairment:				
Balance, December 31, 2006	\$ (200)	\$ -	\$ (18)	\$ (218)
Depreciation and depletion	-	(69)	(42)	(111)
Balance, December 31, 2007	\$ (200)	\$ (69)	\$ (60)	\$ (329)
Depreciation and depletion	-	(658)	(202)	(860)
Balance, December 31, 2008	\$ (200)	\$ (727)	\$ (262)	\$ (1,189)
Net book value:				
December 31, 2007	\$ 64,269	\$ 10,743	\$ 328	\$ 75,340
December 31, 2008	\$ 97,675	\$ 28,427	\$ 706	\$ 126,808

(a) Resource properties – helium and CO₂ fields

Resource property expenditures represent the Company's inception-to-date activities on the St. Johns Field. Approximately \$20.0 million of the \$97.9 million in total expenditures represents the value assigned to the holdings acquired in the Company's acquisition of Arizona Resources Industries, Inc. during November 1997, and which are without tax basis. The balance of the expenditures comprises lease acquisition and delay rental costs and drilling costs. There is no amortization or depletion of resource amounts capitalized since there is no production currently from the properties.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 8

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

(b) Oil and gas properties

In 2007, the Company initiated crude oil and natural gas operations with property acquisitions of minimally producing property interests located in New Mexico. These acquisitions represented essentially unproved properties with unevaluated potential for enhanced oil recovery projects, which the Company initiated evaluation processes for during 2008. The projects on these properties are being accounted for under the full-cost method of accounting. Substantially all the costs related to these properties are being carried as major development project costs pending the completion and evaluation of pilot CO₂ injection projects currently underway to evaluate enhanced oil recovery feasibility and estimated economics for development. Accordingly, capitalized costs of \$24.6 million and \$10.0 million for 2008 and 2007, respectively, have been excluded from costs subject to depletion and depreciation until it is determined whether proved reserves are attributable to the properties. The Company has not capitalized general and administrative expenses related to acquisition, exploration or development activities. .

No write-down of oil and gas properties was required in 2008 as a result of application of the ceiling test. The forecasted future prices used for purposes of the ceiling test at December 31, 2008 were:

	Natural Gas (US\$/mcf)	Crude Oil (US\$/bbl)
2009	\$ 6.11	\$ 53.51
2010	\$ 7.14	\$ 63.49
2011	\$ 7.92	\$ 69.94
2012	\$ 7.11	\$ 71.67
2013	\$ 7.55	\$ 73.29
Thereafter (weighted average)	\$ 7.50	\$ 75.00

In June 2008, the Company completed the purchase of a 98% working interest in a New Mexico oilfield for US\$4.5 million and announced its intention to initiate an enhanced oil recovery project through CO₂ injection flooding. The property acquisition covers approximately 800 acres in a mature oilfield that had limited production in 2007. The Company capitalized the estimated asset retirement obligation of US\$0.25 million at the acquisition date based on the discounted estimated cash flows to retire and abandon the property (see Note 5).

In October 2008, the Company completed the purchase of a 100% working interest in a 1,900 acre New Mexico oilfield for US\$436,000. The acquisition of the property interest was effective July 1, 2008. The property is contiguous to an oilfield on which the Company currently has initiated a CO₂ pilot injection project. The Company capitalized the estimated asset retirement obligation of US\$0.23 million, based on the discounted estimated cash flows to retire and abandon the property (see Note 5).

In February 2007, the Company completed the purchase of a New Mexico oilfield for US\$1.5 million cash and announced its intention to initiate an enhanced oil recovery (“EOR”) project through CO₂ injection flooding. In addition, the Company was required to put up cash security in the amount of US\$0.4 million in connection with statutory abandonment obligations related to the property. The property acquisition covers approximately 15,000 acres in a mature oilfield with no proved reserves. The Company capitalized the estimated asset retirement obligation of US\$1.9 million at the acquisition date based on the discounted estimated cash flows to retire and abandon the property (see Note 5).

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 9

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

In July 2007, the Company completed the purchase of a second New Mexico oilfield for US\$3.2 million cash. This property is located near the first property acquisition completed in February. The Company intends to initiate EOR operations in this field through CO₂ injection flooding. The Company capitalized the estimated asset retirement obligation of US\$0.7 million at the acquisition date based on the discounted estimated cash flows to retire and abandon the property (see Note 5).

Effective October 1, 2007, the Company completed the purchase of additional property interests in New Mexico for US\$0.7 million in cash. These interests cover approximately 4,000 acres contiguous to the Company's first acquisition in February 2007 noted above. The Company capitalized the estimated asset retirement obligation of US\$0.9 million at the acquisition date based on the discounted estimated cash flows to retire and abandon the property and relocate present facilities (see Note 5).

(c) Other property and equipment

Other property and equipment consist primarily of field vehicles and office equipment.

(4) Receivables

The Company's receivables at December 31 consisted of the following:

	December 31	
	2008	2007
Due from sales of crude oil and natural gas	\$ 397	\$ 1,063
Secured 10% Note, dated August 8, 2007 due from drilling contractor	-	385
Note and option agreement dated October 2, 2007	-	1,152
Secured Note dated December 3, 2007, due from drilling contractor	-	1,643
Other	227	375
Balance, end of period	\$ 624	\$ 4,618

In August 2007, the Company advanced US\$0.4 million on behalf of Forster Tool & Supply, Inc., a subsidiary of Forster Drilling Corporation ("Forster") to purchase a drilling rig and related drilling equipment. In connection with this rig purchase, Forster executed a 10% secured note due December 31, 2007, which was paid in full on January 3, 2008, including accrued interest. See discussion of related party nature in Note 11.

On November 21, 2007, the Company advanced Forster US\$0.2 million to fund a security deposit on a drilling rig and subsequently advanced an additional US\$1.5 million on December 3, 2007, to allow Forster to complete its acquisition of the drilling rig and related equipment. In connection with these transactions, Forster executed a 10% secured note payable to a subsidiary of the Company in the amount of US\$1.7 million effective December 3, 2007, due March 27, 2008. Effective March 27, 2008, the Company extended the term of the secured note to June 27, 2008, and increased the rate of interest to 12% with interest payable monthly. On July 2, 2008 the Company and Forster executed an agreement that called for, among other things, a mutual release of certain matters regarding a drilling contract between the parties and agreed to a 60 day joint marketing arrangement intended to dispose of the drilling rig and equipment securing the note. On November 14, 2008, the Company accepted an assignment of the drilling rig and related equipment from Forster in extinguishment of and in lieu of foreclosure by the Company on

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 10

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

Forster's note, which was past due and unpaid. The Company recorded the rig and related equipment at US\$1,650,000 based on an independent appraisal obtained in October 2008, net of estimated selling costs. In addition, the Company expensed costs of US\$437,000 which the Company had incurred in connection with the rig. At December 31, 2008 the rig and related equipment is classified as a current asset of equipment held for sale.

On October 2, 2007, the Company advanced Orbit Petroleum, Inc. ("Orbit"), an Oklahoma corporation, US\$1.1 million to finance an Orbit's acquisition of certain oil and gas interests in the Permian Basin then pending, in exchange for a note of Orbit. The note included an option to purchase certain property interests to be acquired by Orbit and was exercisable for US\$650,000 out of the principal of the loan. Interest on the note was due monthly at an annual rate of 18% and matured on November 2, 2008. In connection with the note, Orbit granted the Company an option to purchase a producing oil field in the Permian Basin held by Orbit's acquisition target. The note was collateralized by the property under option as well as additional property owned by Orbit. In February 2008, Orbit filed for protection under Chapter 11 of the United States Bankruptcy Code in the Federal District Bankruptcy Court in New Mexico. In August 2008, Orbit filed a plan of reorganization which proposed the payment of all secured and unsecured creditors, including full payment of the principal of their note payable to the Company. Their proposed plan included additional funding by an outside party. In October 2008, the outside party which was to provide the funding withdrew its commitment to fund the plan. A United States Trustee has since been appointed to dispose of the bankruptcy case. At December 31, 2008 the Company is unable to determine that it will be able to collect on the note or acquire the property under the option. As a result, interest received of US\$0.1 million was recorded as a reduction in principal and a provision to fully impair the loan has been recorded of US\$1.0 million.

(5) Asset Retirement Obligation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of resource properties and oil and gas properties:

	December 31	
	2008	2007
Balance, beginning of year	\$ 4,482	\$ 248
Accretion	350	210
Plug & Abandonment Costs Incurred	(72)	-
Liabilities incurred	536	4,024
Balance, end of year	\$ 5,296	\$ 4,482

The total undiscounted amount of estimated cash flows required to settle the obligations is US\$21.1 million, which has been discounted using a credit-adjusted risk free rate of 7.2% and 9.85% and assumes an inflation rate of 1.5% and 3%. Most of these obligations are expected to be settled over the next sixteen to thirty-one years and will be funded from general Company resources at the time of retirement.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 11

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

(6) Equity Instruments

(a) Authorized

25 million preference shares of no par value (1,000 shares issued to a wholly owned subsidiary of the Company)

Unlimited common shares of no par value

(b) Issued

	Number of Common Shares	Amount
Balance December 31, 2006	45,069,493	\$ 66,765
Shares issued in private placements, net	54,873,582	37,706
Shares issued on exercise of warrants	2,501,451	2,113
Shares issued on exercise of stock options	1,250,000	1,072
Shares issued on debt settlement	250,000	373
Bonus shares	211,187	171
Shares issued for compensation	20,000	31
Fair value of exercised stock options	-	390
Balance, beginning of year	104,175,713	\$ 108,621
Shares issued in private placements, net	28,359,181	23,851
Shares issued upon exercise of Agency Options	120,100	150
Shares issued on exercise of warrants	8,084,892	8,330
Shares issued on exercise of stock options	700,000	760
Fair value of warrants exercised	-	1,739
Fair value of agent options exercised	-	124
Balance, end of year	141,439,886	\$ 143,575

On June 30, 2008, the Company closed a nonbrokered private placement of 22,975,681 units priced at \$1.24 each and consisted of one common share and one-half of one non-transferable common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at \$1.80 until June 20, 2010. Gross proceeds totaled \$28.5 million and the Company incurred offering costs of \$2.0 million thereby realizing net proceeds of \$26.5 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$6.9 million using the Black Scholes option pricing model and assuming an expected volatility of 91% (assuming the warrants are held to maturity) and a risk free interest rate of 3.14%.

On June 27, July 16 and July 31, 2008, the Company closed three tranches of a brokered private placement of 5,383,500 units. The units were priced at \$1.24 each and consisted of one common share and one-half of one non-transferable common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at \$1.80 until 2 years after the closing date. Gross proceeds totaled \$6.7 million. The Company incurred offering costs of \$0.6 million thereby realizing net proceeds of \$6.1 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$1.4 million using the Black Scholes option pricing model and assuming an expected volatility of 91% (assuming the warrants are held to maturity) and a risk free interest rate of 2.86 -

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 12

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

3.14%. The Company also issued to the Agent an option to acquire 376,845 units. The options expire two years after the closing dates. The Company assigned \$0.4 million as the fair value of this option as calculated by using the Black Scholes option pricing model and assuming an expected volatility of 91% and a weighted average risk free interest rate of 2.86 - 3.14%.

In January 2008, certain holders (See footnote 10 - Related Party Transaction) of the Company's \$1.00 common stock purchase warrants with a scheduled expiration date of January 19, 2008, exercised the warrants prior to their expiration in exchange for promissory notes issued by the individuals (the "Notes"). The Notes aggregating \$2,074,000 were due in full on July 19, 2009, with interest at 8.5% per annum. The indebtedness was made with full recourse to the individuals and were collateralized by all the shares purchased. The shares purchased were delivered to the Company under arrangements which required the sale of the shares during the period from July 19, 2008 through July 19, 2009, until the principal and interest were repaid. There were no sales of the common shares pledged to the Notes and no collections had been received. In addition, the underlying market price of the Company's Common Shares had declined to \$0.43 per share. In November 2008, the Company agreed to cancel the Notes in exchange for surrender of the shares pledged as security for the loans and 2,074,000 common shares were cancelled. These transactions were accounted for under Canadian Institute of Chartered Accountants ("CICA") Handbook Emerging Issues Committee ("EIC") - 132, "Share Purchase Financing". EIC 132 requires that this type of loan receivable should be presented as a deduction from shareholders equity, interest income be recorded as a contributed capital transaction when received, if any, and earnings per share should be calculated by deducting the number of shares securing the loans. EIC 132 also requires that the number of shares securing the loans should be treated as stock options and accounted for pursuant to CICA Section 3870, "Stock-based Compensation and Other Stock Based Payments". Accordingly, the Company recorded stock-based compensation expense of \$1,120,000 in 2008 related to the shares issued and accounted for the Notes as a deduction from shareholders equity until they were cancelled in December 2008.

During 2007, the Company announced and closed five private placements of equity instruments as follows:

- i. On January 19, 2007, the Company closed a non-brokered private placement of 16,995,605 units. The units were priced at \$0.54 each and consisted of one Common Share and one non-transferable common share purchase warrant. Each common share purchase warrant entitles the holder to purchase an additional common share at \$1.00 until January 19, 2008. Gross proceeds totaled \$9.2 million. The Company incurred offering costs of \$0.6 million, thereby realizing net proceeds of \$8.6 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$2.8 million using the Black Scholes option pricing model and assuming an expected volatility of 71% (assuming the warrants are held to maturity) and a risk free interest rate of 4.22%.
- ii. On April 19, 2007, the Company closed a non-brokered private placement of 1,344,360 units. The units were priced at \$2.00 each and consisted of one Common Share and one-half of one non-transferable common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at \$3.00 until April 19, 2008. Gross proceeds totaled \$2.7 million. The Company incurred offering costs of \$0.3 million, thereby realizing net proceeds of \$2.4 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 13

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$0.3 million using the Black Scholes option pricing model and assuming an expected volatility of 105% (assuming the warrants are held to maturity) and a risk free interest rate of 4.33%.

iii. On July 4, 2007, the Company closed a non-brokered private placement of 7,086,817 units. The units were priced at \$1.24 each and consisted of one Common Share and one-half of one non-transferable common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at \$1.80 until July 4, 2009. Gross proceeds totaled \$8.7 million. The Company incurred offering costs of \$0.8 million, thereby realizing net proceeds of \$7.9 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$3.0 million using the Black Scholes option pricing model and assuming an expected volatility of 91% (assuming the warrants are held to maturity) and a risk free interest rate of 4.72%.

iv. On June 28, 2007, the Company announced a brokered private placement. The Company held four closings totaling 20,161,200 units on June 28, 2007, July 9, 2007, July 23, 2007 and July 27, 2007. The units were priced at \$1.24 each and consisted of one Common Share and one-half of one non-transferable common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at \$1.80 until two years from each of the respective closing dates. Gross proceeds totaled \$25.0 million. The Company incurred offering costs of \$2.2 million, thereby realizing net proceeds of \$22.8 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$8.7 million using the Black Scholes option pricing model and assuming an expected volatility of 91.5% (assuming the warrants are held to maturity) and a weighted average risk free interest rate of 4.75%. The Company also issued to the Agent options to acquire 2,016,120 additional units. The options expire on various dates ranging from June 28, 2009 to July 27, 2009. The Company assigned \$2.9 million as the fair value of these options as calculated by using the Black Scholes option pricing model and assuming an expected volatility of 91.5% and a weighted average risk free interest rate of 4.75%.

v. On October 3, 2007, the Company announced a brokered private placement and held its only closing of 9,285,600 units on October 10, 2007. The units were priced at \$1.80 each and consisted of one Common Share and one-half of one non-transferable common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share at \$2.50 until October 10, 2009. Gross proceeds totaled \$16.7 million. The Company incurred offering costs of \$1.5 million, thereby realizing net proceeds of \$15.2 million. The Company allocated the fair value of the net proceeds received upon the sale of the units between the underlying common shares and the common share purchase warrants. The common share purchase warrants' fair value was determined to be \$3.2 million using the Black Scholes option pricing model and assuming an expected volatility of 93% (assuming the warrants are held to maturity) and a risk free interest rate of 4.4%. The Company also issued to the Agent an option to acquire 742,848 additional units. The option expires on October 10, 2009. The Company assigned \$0.7 million as the fair value of this option as calculated by using the Black Scholes option pricing model and assuming an expected volatility of 93% and a weighted average risk free interest rate of 4.4%.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 14

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

In connection with the private placements dated January 19, 2007, and April 19, 2007, noted above, the Company issued 206,462 and 4,725 common shares, respectively, as finder fees. The Company recorded these issuances as share issue costs at a price per share of \$0.79 and \$1.71, respectively, based on the Company's trading price of its common shares at that time.

In connection with a consulting arrangement for professional services, the Company issued 20,000 shares of common stock as part of the consultant's compensation and recorded this issuance as general and administrative expense based on the Company's trading price of its common shares at that time.

(c) Warrants

	Number of Warrants	Amount
Balance December 31, 2006	1,448,501	\$ 133
Issued in private placements	36,443,491	15,297
Exercised	(1,830,091)	(216)
Canceled	(384,398)	-
Expired (transferred to Contributed Surplus)	(335,500)	(34)
Balance December 31, 2007	35,342,003	15,180
Issued in private placements	14,179,592	8,373
Issued upon exercise of Agency Options	60,050	105
Exercised	(10,409,142)	(1,739)
Expired (transferred to Contributed Surplus)	(6,704,090)	(1,305)
Balance December 31, 2008	32,468,413	\$ 20,614

The following table sets forth the exercise price and expiration dates of outstanding common share purchase warrants at December 31, 2008:

Issue Date	Number of Warrants ⁽¹⁾	Exercise Price	Expiration Date
July 4, 2007	3,505,371	\$ 1.80	July 4, 2009
June 28, 2007	1,211,305 ⁽²⁾	\$ 1.80	June 28, 2009
July 9, 2007	1,443,595 ⁽²⁾	\$ 1.80	July 9, 2009
July 23, 2007	6,422,750 ⁽²⁾	\$ 1.80	July 23, 2009
July 27, 2007	1,063,000 ⁽²⁾	\$ 1.80	July 27, 2009
October 10, 2007	4,642,800	\$ 2.50	October 10, 2009
June 27, 2008	1,219,250 ⁽³⁾	\$ 1.80	June 27, 2010
June 30, 2008	11,487,842 ⁽³⁾	\$ 1.80	June 30, 2010
July 16, 2008	827,500 ⁽³⁾	\$ 1.80	July 16, 2010
July 31, 2008	645,000 ⁽³⁾	\$ 1.80	July 31, 2010
Balance, December 31, 2008	32,468,413		

(1) The warrant numbers presented represent the number of whole warrants outstanding for each grant.

(2) These Warrants were issued in connection with the Company's brokered private placement announced on June 28, 2007.

(3) These Warrants were issued in connection with the Company's brokered private placement announced on June 23, 2008.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 15

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

(d) Agency Options

	Number of Agency Options	Amount
Balance December 31, 2006	-	\$ -
Issued in private placements	2,758,968	3,795
Balance December 31, 2007	2,758,968	3,795
Issued in private placements	376,845	359
Exercised	(120,100)	(229)
Balance December 31, 2008	3,015,713	3,925

The following table sets forth the exercise price and expiration dates of outstanding agency options at December 31, 2008:

Issue Date	Number of Agency Options		Exercise Price	Expiration Date
June 28, 2007	233,800	(1)	\$ 1.24	June 28, 2009
July 9, 2007	243,920	(1)	\$ 1.24	July 9, 2009
July 23, 2007	1,205,700	(1)	\$ 1.24	July 23, 2009
July 27, 2007	212,600	(1)	\$ 1.24	July 27, 2009
October 10, 2007	742,848	(2)	\$ 1.80	October 10, 2009
June 27, 2008	170,695	(3)	\$ 1.80	June 27, 2010
July 16, 2008	115,850	(3)	\$ 1.80	July 16, 2010
July 31, 2008	90,300	(3)	\$ 1.80	July 31, 2010
Balance, December 31, 2008	3,015,713			

(1) These Agency Options were issued in connection with the Company's brokered private placement announced on June 28, 2007, and entitle the holder to acquire one Unit for \$1.24. Each Unit entitles the holder to one share of Common Stock and a Warrant to purchase 1/2 share of Common Stock for \$1.80.

(2) These Agency Options were issued in connection with the Company's brokered private placement which closed on October 10, 2007, and entitle the holder to acquire one Unit for \$1.80. Each Unit entitles the holder to one share of Common Stock and a Warrant to purchase 1/2 share of Common Stock for \$2.50.

(3) These Agency Options were issued in connection with the Company's brokered private placement which closed on June 27, July 16, and July 31, 2008 and entitle the holder to acquire one Unit for \$1.80. Each Unit entitles the holder to one share of Common Stock and a Warrant to purchase 1/2 share of Common Stock for \$1.80.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 16
(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

(e) Contributed surplus

	December 31	
	2008	2007
Balance December 31, 2007	\$ 9,197	\$ 4,160
Fair value of stock option grants	4,655	5,393
Fair value of exercised stock options	(330)	(390)
Contributions related to warrant expirations	1,305	34
Balance December 31, 2008	\$ 14,827	\$ 9,197

(f) Stock option plan

The Company has a Stock Option Plan under which a rolling amount is reserved for issuance of up to 10% of the outstanding common shares as of any particular grant date. These options have been granted with a five-year expiry.

	2008		2007	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	9,710	\$ 1.15	3,105	\$ 1.53
Granted	5,570	0.67	8,525	0.56
Exercised	(700)	0.60	(1,250)	-
Forfeited	(3,785)	1.36	(670)	2.20
Expired	-	-	-	-
Outstanding at end of year	10,795	0.83	9,710	0.86
Exercisable at end of year	7,200	\$ 1.08	6,165	\$ 1.16

The following table summarizes information about stock options as at December 31, 2008 (shares in thousands):

Options Outstanding				Options Exercisable		
Range of Prices		Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
Low	High					
\$ 0.30	\$ 0.62	4,960	4.3	\$ 0.40	1,540	\$ 0.61
\$ 0.95	\$ 1.20	3,960	3.6	\$ 1.05	3,760	\$ 1.06
\$ 1.24	\$ 1.89	1,875	4.1	\$ 1.49	1,900	\$ 1.50
\$ 0.59	\$ 1.89	10,795		\$ 0.83	7,200	\$ 1.08

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 17

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

(g) Stock-based compensation

The Company records stock-based compensation expense in the consolidated financial statements for stock options granted using the fair value method. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. Depending on the terms of vesting for each option, compensation expense is recognized over the vesting period. Compensation expense of \$4.7 million (including \$1.2 million related to share purchase loans – see Note 6(b) Receivables) has been recognized during the twelve months ended December 31, 2008 (2007 – \$5.4 million) based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for stock-based compensation.

The estimated fair value of share options issued during the twelve months ended December 31, 2008 and 2007 was determined using the Black Scholes option-pricing model with the following assumptions:

	2008	2007
Risk-free interest rate	1.18% to 3.70%	3.95% to 4.81%
Expected option life	5 years	5 years
Volatility in the price of the Company's shares	78% to 98%	72% to 90%
Dividend yield	-	-

The weighted average fair value of all options granted during the twelve months ended December 31, 2008 and 2007 was \$0.66 per option and \$0.76 per option, respectively, using the Black-Scholes option-pricing model.

(7) Income Taxes

At December 31, 2008, the Company and its subsidiaries had unrecognized future tax deductions aggregating approximately \$137.7 million (of which approximately \$124.0 million relates to U.S. subsidiaries). The potential benefit of these deductions has not been recognized in these financial statements. In addition, the Company had Canadian non-capital losses of approximately \$8.3 million that expire over various years up to 2028 and U.S. non-capital losses of \$17.1 million available to be utilized over the next twenty years. Substantially all of the Company's future income tax liability is related to temporary differences between the accounting and tax bases of the Company's resource properties.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 18

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

The income tax provision differs from the amount that would be obtained by applying the Canadian basic federal and provincial income tax rate to earnings (loss) before income taxes for the year as follows:

	2008	2007
Statutory tax rate	29.50%	32.12%
Loss for the year before income taxes	\$ (10,130)	\$ (9,998)
Expected income tax benefit	(2,988)	(3,211)
Adjustments to reconcile expected income tax benefit to actual:		
Unrecognized benefit of losses	2,595	1,932
Stock-based compensation	1,373	1,732
Benefit related to changes in future tax rates	-	-
Other	(980)	(453)
Actual income tax benefit	\$ -	\$ -
	2008	2007
Future income tax liabilities		
resource properties	\$ (7,899)	\$ (7,899)
Future income tax assets		
Non-capital losses	8,694	5,692
Asset retirement obligation	2,054	1,726
Share issue costs	1,456	1,133
Other	773	-
Less - valuation allowance	(12,977)	(8,551)
Net tax asset	\$ -	\$ -

(8) Segment Information

At December 31, 2008, the Company and its subsidiaries operated in one geographic area (United States) but two reportable business segments 1) helium and CO₂ resources and 2) crude oil and natural gas production..

Identifiable assets, revenues and net loss in each of the Company's two business segments areas are as follows:

At and for the year ended December 31, 2008	Identifiable		Net
	Assets	Revenues	Income/(Loss)
Helium & CO ₂ resources	\$ 97,675	\$ -	\$ -
Crude oil and natural gas production	36,220	4,463	(5,107)
Corporate	3,412	490	(5,023)
	\$ 137,307	\$ 4,953	\$ (10,130)
At and for the year ended December 31, 2007			
Helium & CO ₂ resources	\$ 64,268	\$ -	\$ -
Crude oil and natural gas production	18,739	1,392	(4,162)
Corporate	18,210	173	(5,836)
	\$ 101,217	\$ 1,565	\$ (9,998)

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 19

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

(9) Financial instruments

(a) Fair Value Disclosure

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company has determined that the carrying value of its short-term financial assets and liabilities (cash and cash equivalents, and receivables) approximates fair value at the balance sheet dates due to the short-term maturity of these instruments or, in the case of notes receivable, to the fair value of the underlying collateral pledged to the instruments. The fair value of accounts payable and accrued liabilities is lower than its carrying value.

(b) Risk management

Disclosures relating to exposure to risks, in particular credit risk, liquidity risk, foreign currency risk, interest rate risk and equity price risk are provided below.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's financial instruments that are exposed to concentrations of credit risk are primarily cash and cash equivalents, and accounts receivable. The Company limits its exposure to credit risk with respect to cash equivalents by investing available cash in short-term deposits with Canadian and US banks, principally in over-night money market funds investing in government treasury instruments. The Company's receivables consist of notes and equity instruments subscribed receivables and related interest and amounts due from sales of its crude oil and natural gas production.

With respect to its crude oil and natural gas production receivables, the Company is the operator of all its property interests and owns all of the working interest in producing and non-producing properties and, therefore, does not jointly participate with others in operating the properties and is not exposed to credit risk related to joint operations. Receivables related to the sale of crude oil production is with a single major reputable marketer with an excellent credit rating and proceeds are collected within approximately 25 days following the month of delivery. The Company produces a limited amount of natural gas which is sold to a reputable purchaser and collections occur within approximately 55 day of the end of any monthly period. As the operator of all its net oil and gas property interests, the Company takes its production in kind in all instances to further mitigate this risk and, with respect to the majority of operated production, remits royalty and severance taxes to the other royalty and working interest owners of the leaseholds interests.

At December 31, 2008, the Company's exposure to credit risk for these financial instruments was as follows (all amounts in thousands):

Cash and cash equivalents	\$	5,241
Receivables (\$118 not current)		624

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 20
(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of accounts payable is within six months or less. At December 31, 2008, the Company had a limited degree of liquidity with \$5.2 million in cash and cash equivalents. The Company had no unsecured or secured credit facilities at December 31, 2008. The Company has historically financed its expenditures and working capital requirements through the sale of common stock or, on occasion, through the issuance of short-term debt.

Foreign exchange risk

Substantially all of the Company's expenditures are made with US dollars. As a result of the Company's limited liquidity and drilling commitments for 2007 and 2008, related to its resource properties, the Company had limited ability to manage its foreign exchange exposure (principally US Dollar) on cash flows related to these purchases. At December 31, 2008, the Company had no outstanding foreign exchange option contracts.

The Company has performed sensitivity analysis on its US dollar denominated financial instruments, which consist principally of cash and cash equivalents of US\$1.6 million at December 31, 2008, to determine how a change in the US dollar exchange rate would impact net earnings. On December 31, 2008, a 10% rise or fall in the Canadian dollar against the US dollar, assuming that all other variables, in particular interest rates, had remained the same, would have resulted in an approximate \$0.2 million decrease or increase, respectively, in the Company's net earnings for the period ended December 31, 2008.

Interest rate risk

The Company's exposure to interest rate fluctuations at December 31, 2008, is primarily related to cash deposits denominated in Canadian or US dollars invested in short-term (less than 90 days) money market funds through its bank accounts and interest earned on its cash and cash equivalents. In addition, the Company's cash secured bonds posted for the Company's oil and gas operations in the state of New Mexico are also exposed to interest rate risk.

The Company has performed sensitivity analysis on interest rate risk at December 31, 2008, to determine how a change in interest rates would impact equity and net loss. During the year ended December 31, 2008, the Company earned \$0.7 million of interest income on its cash and cash equivalents. An increase or decrease of 100 basis points in the average interest rate earned during the year would have increased or decreased equity and net earnings by \$0.1 million. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Equity price risk

The Company has not invested in available-for-sale equity securities, and consequently, is not exposed to equity price risk related to equity investments.

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 21
(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

Commodity price risk

The Company has no crude oil or natural gas derivative contracts in effect. The Company is therefore subject to the fluctuations in world commodity prices for the products it sells.

(10) Related Party Transactions

Each of the following transactions was initially recorded at the exchange amount.

In August 2007, the Company advanced \$0.4 million on behalf of Forster, of which two outside directors of the Company are shareholders, to purchase a drilling rig and related drilling equipment. In connection with this rig purchase, Forster executed a 10% secured note due December 31, 2007, which was paid in full January 3, 2008, including accrued interest (see Note 4).

On November 21, 2007, the Company advanced Forster US\$0.2 million to fund a security deposit on a drilling rig and subsequently advanced an additional US\$1.5 million on December 3, 2007, to allow Forster to complete its acquisition of the drilling rig and related equipment. In connection with these transactions, Forster executed a 10% secured note payable to a subsidiary of the Company in the amount of US\$1.7 million effective December 3, 2007, due March 27, 2008. Effective March 27, 2008, the Company extended the term of the secured note to June 27, 2008, and increased the rate of interest to 12% with interest payable monthly. On November 14, 2008 Forster assigned the rig and related equipment to the Company. The rig and equipment are classified as equipment held for sale at December 31, 2008.

Certain share purchase loans (See Note 6(b) Equity Instruments – Shares Issued) in connection with transaction made in January 2008 were cancelled in November 2008, including loans to two officers and one director aggregating \$440,128 in connection with warrants exercised prior to their expiration in January. These related parties returned a total of 440,128 shares to the Company and which were cancelled in December 2008.

(11) Commitments

The Company is committed to the following future payments, principally related to office leases:

	2008
2009	\$ 318,719
2010	286,144
2011	286,537
2012	164,146
2013	-
Thereafter	-
Total	\$ 1,055,545

ENHANCED OIL RESOURCES INC.

Notes to the Consolidated Financial Statements, Page 22

(all amounts in thousands of Canadian dollars unless otherwise indicated)

Year ended December 31, 2008 and 2007

(12) Capital Disclosures

The Company attempts to manage its capital to maintain its ability to continue as a going concern, complete its development projects, to adjust to changing market conditions, to maintain flexibility while achieving the objectives, and ultimately to provide returns to shareholders and benefits to other stakeholders. To manage the capital structure, the Company may adjust capital spending, issue new shares, issue new debt or sell assets. The Company's objectives in managing its capital structure are to maintain a flexible financial structure to preserve the Company's access to capital markets, and to finance the Company's growth and continue to meet its financial obligations. At December 31, 2008 and 2007, respectively, total capitalization of the Company is as follows:

	2008	2007
Debt	-	-
Total Stockholders' Equity	122,336	86,426
Total Capitalization	122,336	86,426
Debt to Capitalization Ratio	0.0%	0.0%

The Company manages its capital structure and makes adjustments to it in light of market and economic conditions as well as the risk characteristics of the Company's underlying assets. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issues, the use of credit facilities, adjusting capital spending or by undertaking other strategies as deemed appropriate under the specific circumstances.

The Company monitors capital and its financing requirements through an annual budget process and updates to the budget forecast and working capital projections. Currently, the Company has no funded indebtedness.

(13) Subsequent events

In February 2009, a subsidiary of the Company was named in a New Mexico personal injury lawsuit along with a drilling contractor and another third party. The suit seeks to recover, among other things, past and future lost wages and medical injury reimbursement related to the employee of a third party subcontractor providing casing services in connection with a well drilled on the Company's lease in August 2007. The Company believes it has adequate defenses and insurance in connection with the alleged claims. The Company has engaged legal counsel and notified its insurers to review the alleged claims to determine the relevant facts, however, the Company does not expect these proceedings to have a material adverse effect on the consolidated financial position or results of operations of the Company. No provision has been made in the Company's consolidated financial statements for any potential liability relating to these actions and potential claims.